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RUEHNE/AMEMBASSY NEW DELHI PRIORITY 8479
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RUEHFK/AMCONSUL FUKUOKA PRIORITY 6904
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SUBJECT: SCENESETTER FOR G-8 DEVELOPMENT MINISTERS MEETING
APRIL 5-6

11. (SBU) Summary -- Japan is the world's third largest national aid donor, despite on-going budget cuts. The GOJ has been able to keep the ODA budget between \$10-\$13 billion using an increased reliance on yen loans to compensate for large cuts in grant aid (40 percent over the past eleven years). Despite domestic fiscal pressures, the GOJ wants to remain a significant actor in international development, both in terms of programs - whether in Asia, (its traditional focus), Iraq and Afghanistan, or in Africa where it is looking to increase its role in light of growing Chinese aid activity -- and as a foreign policy tool. Japanese officials note their desire to engage China as an emerging donor, trying to compare notes with Chinese officials as to best practices and, quietly, helping China understand and accept policies and practices that have been agreed to over the years among the U.S., Japan, EU and other established donors.

Japanese officials expect this point to be one of the themes for the April 5-6 Development Ministerial in Tokyo. In addition to the discussions with the G8 and outreach countries, Administrator Fore's visit is an opportunity to explore with Japanese counterparts, in MOFA and in the soon-to-be-reorganized Japan International Cooperation Agency (JICA), how the U.S. and Japan can expand or enhance development cooperation programs through mechanisms such as the Strategic Development Alliance. End summary.

Japan's ODA Strategy

12. (SBU) Japan considers ODA to be one of its main foreign policy tools. In the 1990s, Japan was the world's largest provider of development assistance, primarily targeting Asia

through loans, grants and technical assistance. Towards the end of the 1990s, despite Finance Ministry (MOF) pressure to reduce ODA, Japan continued to take bold steps, providing support for Southeast Asian countries during the Asian financial crisis, leading the initiative during the G-8 Okinawa Summit to target infectious diseases -- out of which the Global Fund (GFATM) was born -- and founding the Tokyo International Conference on African Development (TICAD), that brought together for the first time African heads-of-state to discuss development issues.

13. (SBU) Over the last decade, Japan's ODA strategy has sought to both promote national interests and to address global issues. The GOJ is focused on poverty reduction through economic growth, human security (health, water and education), consolidation of peace, and environmental challenges including climate change. In addition, while current interpretation of the Japanese constitution limits the deployment of troops to conflict areas, Japan is the second largest aid donor after the U.S. for Iraq reconstruction and post-Taliban Afghanistan. The GOJ has also contributed to rebuilding efforts in Timor Leste, Sudan, and the Palestinian area.

Decline in Grant Aid Offset by Increased Loans

14. (SBU) Reaching a high in 1997, Japan's grant aid has declined nearly 40% over the past eleven years. The GOJ again cut the 2008 grant budget 4% to \$7.2 billion. This continuous decline has been driven by Japan's financial situation. Japan's public debt is 195% of GDP, the highest

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in the OECD. The interest payment alone to service this debt is greater than the entire economy of Venezuela. To offset cuts demanded by MOF, the Ministry of Foreign Affairs (MOFA) has sought and received a supplemental budget every year to augment the regular budget. In addition, the GOJ significantly increased its yen loan portfolio through the Japan Bank for International Cooperation (JBIC). Yen loans now comprise nearly 50% of the total ODA budget. These offsets have allowed the GOJ to keep ODA between \$10-\$13 billion per year. Japan has begun to explore public-private partnerships as well as ways to get the private sector more involved in development efforts but has had limited success to date.

ODA Reform

15. (SBU) To use its resources more efficiently, the GOJ is overhauling its ODA decision-making and disbursement system. In 2006, the GOJ formed the Overseas Economic Cooperation Council -- with the participation of the Prime Minister, Foreign Minister, Minister of Finance and the Minister of Economy, Trade and Industry (METI) -- to set overarching ODA policy. It consolidated the decision making process within MOFA into the International Cooperation Bureau and charged that bureau with linking policy to specific diplomatic goals and guiding overall programming accordingly.

16. (SBU) Perhaps one of the most important aspects of the overhaul, however, is the October 2008 merger of the Japan International Cooperation Agency (JICA) with the Japan Bank for International Cooperation (JBIC). The "new" JICA will administer 60% of Japan's grant aid as well as all soft loans and technical assistance. The new entity will be one of the world's largest development organizations, with \$9.5 billion under management, nearly 3,000 employees and 97 overseas offices.

Geographic Coverage

17. (SBU) Traditionally, over 60% of Japan's aid went to Asian countries. China has been a primary beneficiary, receiving nearly \$28 billion between 1978 and 2003, mostly in the form of low-interest yen loans for infrastructure projects. Japan

discontinued its yen loan program China in 2007. Indonesia is another large recipient, with grants, loans, and technical assistance topping \$1 billion in fiscal year 2007. The GOJ is increasingly turning its attention to African development and will host TICAD IV in May. Aid to Africa doubled from 2005 to 2007 and now accounts for 23% of Japan's total ODA. Africa is seen as key to Japan's efforts to win a permanent UN Security Council seat, a source of vital natural resources and a battleground for contesting China's rising international influence.

Keeping an Eye on China

¶18. (SBU) China's increasing role as economic competitor, whether for oil and other key commodities, and its growing profile as an aid donor is a chief focus for the GOJ and a matter MOFA will raise at various times and in various ways at the April Ministerial. Government and private sector officials note China's increased profile in Africa.

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Government officials often state concerns that China's programs in Sudan and other African countries undercut international efforts to foster development, human rights, and peace. They also state China has not accepted the policies, practices, and mind-set that Japan, the U.S., and other established donors have developed and agreed upon in the OECD's Development Assistance Committee and other fora. Japanese officials report they have begun quiet conversations with Chinese counterparts on these topics and expect the Ministers to look at this question in their opening, G8-only session.

Outlook for U.S.-Japan Development Cooperation

¶19. (SBU) There is great interest within MOFA in expanding the Strategic Development Alliance (SDA) launched by former Foreign Minister Machimura (now Chief Cabinet Secretary, the equivalent of a Deputy Prime Minister) and Secretary Rice in ¶2005. Currently, there are two programs, one targeting improving the business and investment climate in Indonesia, and the other in Pakistan focusing on workforce development/human capacity building.

¶10. (SBU) In addition to SDA, the U.S. and Japan cooperate on a number of development assistance projects. The U.S.-Japan Clean Water for People Initiative, signed by former FM Kawaguchi and then Secretary Powell in 2002, has provided safe water and sanitation to the poor, improved watershed management, increased water productivity and has created innovative public-private financing. The U.S.-Japan Partnership for Global Health targets infectious diseases (HIV/Aids, TB, malaria, NTD, polio), avian influenza, maternal child health, and health systems in Asia and Africa.

Comment

¶11. (SBU) Japan truly wants to be a significant player in the world of development assistance despite fiscal constraints. China's growing presence as a donor has strengthened Japanese desire to maintain its profile in the development world and also to play a role in working with China's authorities to have them adopt practices, procedures and policies long accepted by developed country donors. There is great concern within the GOJ, academia, and even the private sector that Japan has slipped from first to third place (as of 2006) of world donors and could even slip further if budget cuts continue. The GOJ, therefore, is actively seeking ways to use its ODA more creatively and effectively. Administrator Fore's visit could be an opportunity explore enhancing existing initiatives or developing new areas of cooperation where synergies might exist with USG programs. End comment.

SCHIEFFER